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ECOTO 16

E.O. 11652: N/A

TAGS: EGEN, OECD, OVIP (CASEY, WILLIAM J.)

SUBJECT: XCSS MEETING NOV 8, 1973: INVESTMENT

REF: (A) CE(73)14 (B) CE/M(73)19(PROV.)

1. SUMMARY: XCSS HELD SOLID SUBSTANTIVE DISCUSSION WHOLE INVESTMENT ISSUE ON BASIS OF REF (A) AND STRONG STATEMENT BY U.S. REP CASEY. ALTHOUGH MANY POSSIBLE POINTS OF DIFFERENCE SURFACED ON SPECIFIC QUESTIONS, THERE WAS GENERAL ACCEPTANCE OF WORK PROGRAM ALONG GENERAL LINES OF JULY MANDATE (REF B) AS SUPPLEMENTED BY CHAIRMAN'S CAREFUL SUMMARY OF PRESENT MEETING. THIS CONSISTENT WITH SPECIFIC WORK PROGRAM SUGGESTED IN PAPER GIVEN INFORMALLY TO CHAIRMAN AND SEC GEN BY U.S. REP. MEETING EVOLVED GENERAL CONSENSUS ON NEED TO DEVELOP PRAGMATIC APPROACH THROUGH CONSULTATIONS BASED ON BROAD FRAME OF REFERENCE EMBODYING IDEAS OF NATIONAL TREATMENT AND TRANSPARENCY OF INVESTMENT AIDS AND POSSIBLY OTHER PRINCIPLES TO BE DEVELOPED. SECRETARIAT AND EXPERTS WILL PROCEED SIMULTANEOUSLY GATHERING, ANALYZING AND PRESENTING ADDITIONAL INFORMATION ON EXISTING COUNTRY MEASURES WHICH INFLUENCE INVESTMENT PROCESS, WITH MOST OF NEEDED INFORMATION EXPECTED TO BE ALREADY AVAILABLE IN SECRETARIAT, AND PREPARING DRAFTS OF GUIDELINES AND CONSULTATION PROCEDURES TO BE SUBMITTED TO XCSS FOR EVALUATION. SEPARATE STUDY OF POSSIBILITIES OF HARMONIZING GOVERNMENTAL PRACTICES AFFECTING MNC'S AND OF DEVELOPING MNC GUIDELINES (LATTER IN COOPERATION WITH BIAC AND TUAC) WILL ALSO GO FORWARD. LDC INVESTMENT QUESTION WAS FOR MOST PART SET ASIDE, AT LEAST PENDING PRIOR COMPLETION OF UNDERSTANDINGS FOR INVESTMENT WITHIN OECD AREA. END SUMMARY.

2. CONCLUSIONS AND WORK PROGRAM: CHAIRMAN STATED THAT DISCUSSION, TAKING ALMOST ENTIRE FIRST DAY OF MEETING, LIMITED OFFICIAL USE
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WAS CONSTRUCTIVE AND THAT ITS CONCRETE NATURE HAD BROUGHT OUT MORE CLEARLY PROBLEMS WHICH SOME COUNTRIES HAVE WITH VARIOUS ASPECTS OF WORK ON INTERNATIONAL INVESTMENT ISSUES. CHAIRMAN'S ORAL SUMMATION, WHICH XCSS AGREED TO ADOPT AS CONCLUSION OF INVESTMENT DISCUSSION, INCLUDED FOLLOWING POINTS: (TEXT TO BE CONFIRMED IN XCSS MINUTES):

(A) THERE IS AGREEMENT THAT WORK ALREADY BEGUN ON BASIS JULY XCSS MANDATE SHOULD BE CONTINUED BY XCSS AND EXPERTS, GENERALLY ON BASIS OUTLINED IN NOTE BY SEC GEN (REF A). ALSO CONFIRMED THAT INVESTMENT CONTINUES TO BE IMPORTANT PRIORITY FOR XCSS.
(B) PRAGMATIC RATHER THAN DOCTRINAL APPROACH SHOULD BE FOLLOWED. SHORT-TERM GOAL SHOULD BE TO FORMULATE GENERAL PRINCIPLES

RATHER THAN BINDING LEGAL OBLIGATIONS, ALTHOUGH LATTER MIGHT BE DEVELOPED IN THE FUTURE. (C) SUCH PRAGMATIC APPROACH APPLIES ALSO TO DEVELOPMENT OF CONSULTATION PROCEDURES WHICH SHOULD BE BASED ON BROAD FRAME OF REFERENCE EMBODYING IDEA OF NATIONAL TREATMENT. (D) MOST OF DIFFERENCES IN VIEWS WERE IN TERMS OF TIMING AND SEQUENCE OF WORK AS BETWEEN ALTERNATIVES OF IMMEDIATE DRAFTING OF PRINCIPLES OR EVOLUTIONARY PROCEDURE BASED ON CASE STUDIES. HOWEVER, AGREED THAT EXPERTS COULD PROCEED ON PARALLEL FRONTS TO DEVELOP BOTH PRAGMATIC CONSULTATION PROCEDURES AND GENERAL PRINCIPLES, WHILE AT SAME TIME CONTINUING TO OBTAIN FACTUAL INFORMATION NEEDED TO FURTHER DEVELOP GUIDELINES. FURTHERMORE, ACTUAL PRACTICE WITH CONSULTATIONS PROCEDURE WOULD YIELD USEFUL INFORMATION FOR FURTHER DEVELOPMENT OF BOTH PRINCIPLES AND GUIDELINES WHICH COULD THEN BE USED TO IMPROVE CONSULTATION PROCEDURE.

(E) THERE IS BROAD AGREEMENT ON TRANSPARENCY PRINCIPLE.

(F) QUESTION OF DISTORTIONS LESS PROBLEM OF IDENTIFYING FORMS OF INVESTMENT AIDS TO BE CONSIDERED GOOD OR BAD THAN QUESTION OF DEVELOPING INFORMATION ON AND CONSULTATIONS BASED ON DEGREE OF DAMAGE TO INTEREST OF OTHER COUNTRIES AND TO INTERNATIONAL ECONOMIC SYSTEM. (G) ON QUESTION OF MNC GUIDELINES (PART II REF A), THERE WAS AGREEMENT THAT ALL ITEMS IN PARA 26 WERE IMPORTANT, ESPECIALLY DEVELOPMENT OF INFORMATION ON FINANCIAL FLOWS AND THEIR EFFECTS ON BALANCE OF PAYMENTS. GOAL WOULD BE TO HARMONIZE GOVERNMENT ATTITUDES AND ENCOURAGE MNC'S TO ACCEPT SOME FORM OF CODE OF GOOD BEHAVIOR TO BE DEVELOPED IN COOPERATION WITH LIMITED OFFICIAL USE
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BIAC AND TUAC. (NOTE: EC DELEGATE DESCRIBED MNC GUIDELINES JUST SUBMITTED TO EC COUNCIL BY ITS SECRETARIAT - SEE BELOW). (H) ON PROCEDURE, XCSS EXPRESSED STRONG DESIRE TO COORDINATE ACTIVITIES IN OECD ON MNC QUESTION AND TO ASSURE THAT FULL USE WAS MADE OF WORK AND SKILLS IN EXISTING COMMITTEES. THESE COMMITTEES, IN THEIR REPORTS ON MNC QUESTIONS, COULD SUGGEST AREAS APPROPRIATE FOR DEVELOPMENT OF RULES OR GUIDELINES. ALSO, IT WAS THOUGHT THAT COUNCIL WAS PERHAPS MORE ADEQUATELY PREPARED TO HANDLE JOB OF COORDINATING HORIZONTAL APPROACH WITHIN OECD SINCE IT WAS FAMILIAR WITH DAY-TO-DAY WORK OF VARIOUS COMMITTEES CONCERNED. FINALLY, XCSS SEEMED AGREED ON SENSE OF URGENCY, MANY DELEGATES EVEN PROPOSING ESTABLISHMENT OF TIMETABLE FOR COMPLETION OF NECESSARY WORK TO BE SUBMITTED BY SECRETARIAT AT NEXT MEETING. (I) XCSS GENERALLY AGREED LDC ASPECTS OF INVESTMENT (PART III OF NOTE) DO NOT CURRENTLY HAVE SAME IMPORTANCE AS INVESTMENT AMONG OECD COUNTRIES. HOWEVER, SECRETARIAT AND EXPERTS SHOULD NOT BE DISCOURAGED FROM NOTING ASPECTS RELEVANT TO LDC'S AS THEY PURSUE INVESTIGATIONS ON INVESTMENTS.

3. U.S. PROPOSALS: IN ADDITION TO STATEMENT BY UNDER SECRETARY

CASEY DISTRIBUTED TO XCSS (REPORTED SEPARATELY), CASEY ALSO GAVE INFORMAL NOTE TO JOLLES AND VAN LENNEP CONTAINING RECOMMENDATIONS FOR SPECIFIC STEPS NECESSARY TO CONTINUE FORWARD MOMENTUM INVESTMENT EXERCISE AND TO PREPARE NEEDED MATERIALS FOR NEXT MEETINGS XCSS AND ITS EXPERTS. CASEY STRESSED FOLLOWING POINTS: THERE HAS BEEN GENERAL AGREEMENT IN XCSS TO MOVE ALONG LINES SPECIFIED IN JULY MANDATE. WHILE MANY DELEGATIONS FEEL STRONG NEED FOR ADDITIONAL INFORMATION, XCSS EXPERTS ARE EQUIPPED TO ANALYZE EXISTING NATIONAL INVESTMENT POLICIES DRAWING ON DOCUMENTATION ALREADY AVAILABLE IN OECD. SECRETARIAT AND EXPERTS SHOULD PROCEED ON TWO TRACKS (A) QUICKLY GATHERING, AND ANALYZING AND PRESENTING ADDITIONAL INFORMATION AND (B) PREPARING DRAFTS OF GUIDELINES AND CONSULTATION PROCEDURES TO BE SUBMITTED TO XCSS. PURPOSE OF EXERCISE IS TO MITIGATE ARTIFICIAL INFLUENCES TO INVESTMENT WHICH HAVE DAMAGING IMPACT ON OTHER COUNTRIES AND SUBSIDIES WHICH WOULD BE EXPENSIVE TO ALL AND WOULD ONLY RESULT IN INVESTMENT FLOWS TOWARD THE BIGGEST SUBSIDIZERS. SECRETARIAT SHOULD PREPARE APPROPRIATE EXPRESSION OF PRINCIPLE OF NATIONAL TREATMENT AND OF TRANSPARENCY OF INVESTMENT AIDS FOR SUBMISSION TO XCSS,

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AND SHOULD SEEK TO DEVELOP PRINCIPLE OF NEUTRALITY, KEEPING IN MIND CONCERNS EXPRESSED ABOUT NATIONAL DESIRES TO CONTINUE TO INFLUENCE INVESTMENT DECISIONS FOR LEGITIMATE DOMESTIC POLICY REASONS. SECRETARIAT DRAFT SHOULD PRESENT RANGE OF RECOMMENDATIONS WHICH WOULD RECOGNIZE (A) EXISTENCE OF INVESTMENT INCENTIVES WHICH DISTORT TRADE BUT ALSO COMMON INTEREST IN KEEPING THESE DISTORTIONS FROM BECOMING DESTRUCTIVE OR UNDULY SEVERE IN THEIR IMPACT ON OTHER COUNTRIES AND (B) NEED TO KEEP INCENTIVES FROM BECOMING UNDULY EXPENSIVE TO POINT WHERE THEY ARE GENERALLY UNPRODUCTIVE AND SELF-DEFEATING. SECRETARIAT PAPER SHOULD DEAL WITH RESTRICTIONS ON INVESTMENT IN SIMILAR MANNER, MAKING ALLOWANCE FOR EXCEPTIONS NECESSARY FOR ACHIEVEMENT OF VALID NATIONAL PURPOSES SUPPLEMENTED BY AN EXPRESSION OF DESIRABILITY THAT THESE RESTRICTIONS BE NON-DISCRIMINATORY IN NATURE AND DESIGNED NOT TO HAVE INJURIOUS IMPACT ON OTHERS. FINALLY, SECRETARIAT SHOULD FORMULATE CONSULTATION PROCEDURE THROUGH WHICH COUNTRIES WITH REASON TO BELIEVE THAT INVESTMENT POLICIES OF ANOTHER COUNTRY MAY INFLICT SEVERE ACTUAL OR POTENTIAL DAMAGE ON THEIR OWN INTERESTS CAN HAVE THESE POLICIES MUTUALLY REVIEWED.

4. RESULTS OF XCSS EXPERTS MEETING: ABRAMOWSKI SUMMARIZED RESULTS XCSS EXPERTS MEETING ALONG FOUR MAJOR LINES:

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(A)NATIONAL TREATMENT: MOST EXPERTS SAW MERIT IN INTERNATIONALLY
ACCEPTED GUIDELINES, BUT ALSO SAW NEED FOR EXCEPTIONS ON
BOTH GENERAL AND CASE-BY-CASE BASIS FOR SOME COUNTRIES.

THERE WAS WIDE AGREEMENT THAT EXCEPTIONS SHOULD BE ON MFN BASIS AND AWARENESS OF NEED TO PREVENT EXCESSIVE EXCEPTIONS. SECRETARIAT WILL DRAFT MORE PRECISE PROPOSAL FOR REVIEW BY NEXT EXPERTS MEETING. (C) TAKEOVERS: MOST EXPERTS FELT THERE WAS NO NEED FOR SPECIAL TREATMENT SINCE EXISTING CODE OF CAPITAL MOVEMENTS AND NATIONAL LEGISLATION PROVIDED ADEQUATE COVERAGE. WHILE MANY REFERRED TO IMPORTANT POLITICAL AS WELL AS ECONOMIC ASPECTS OF PROBLEM, MOST WERE AGREED CONCERNING DIFFICULTY OF ESTABLISHING PRACTICAL LIMITS. SECRETARIAT WILL CONSIDER FEASIBILITY OF PREPARING MODIFIED PAPER ON POSSIBLE NEGATIVE ASPECTS OF CERTAIN FORMS OF INVESTMENT TAKEOVERS. (C) INVESTMENT AIDS: MOST EXPERTS, WHILE RECOGNIZING THIS WAS IMPORTANT AREA OF CONCERN, SAW NO NEED FOR NEW MAHINERY. SOME FELT MATTER SHOULD BE LEFT TO TRADE COMMITTEE. A FEW SUPPORTED BOTH GUIDELINES AND CONSULTATION PROCEDURES. SOME EXPERTS FELT QUESTION OF DISTORTION RESULTING FROM DOMESTIC INVESTMENT POLICY IRRELEVANT SINCE LATTER NOT DIRECTLY RELATED TO INTERNATIONAL INVESTMENT. EXPERTS GROUP FELT NEW GUIDANCE FROM XCSS NECESSARY THIS QUESTION. (D) MNC GUIDELINES: MOST EXPERTS EMPHASIZED NEED FOR BETTER INFORMATION ON INVESTMENT ACTIVITIES OF MNC'S, E.G., IMPACT ON CAPITAL FLOWS AND NEED FOR EXCHANGE OF INFORMATION AMONG MEMBER GOVERNMENTS. SOME EMPHASIZED GUIDELINES FOR MNC'S ONLY, WHILE MAJORITY FAVORED GUIDELINES FOR BOTH GOVERNMENTS AND FIRMS. THEY WERE SKEPTICAL OF ABILITY TO OBTAIN GOOD DEFINITION OF MNC'S AND FELT STRONGER EFFORT SHOULD BE MADE TO COORDINATE WORK IN REGULAR OECD BODIES ON MNC QUESTION. SECRETARIAT WILL PREPARE NOTE TO COUNCIL ON THIS QUESTION.

5. EC STATEMENT: EC DELEGATE REPORTED ON PROPOSED PROGRAM OF ACTION OF MNC'S JUST SUBMITTED TO EC COUNCIL BY COMMISSION AND EMPHASIZED THAT ITS PURPOSE WAS TO HELP ELIMINATE PROBLEM LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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AREAS SO THAT GROWTH OF TRANSNATIONAL INVESTMENT WITHIN THE EC COULD BE STRENGTHENED. THUS, EC APPROACH IS POSITIVE. IT ALSO DEPENDS FOR ITS ULTIMATE SUCCESS ON ACCEPTANCE AT A WIDER LEVEL, WHICH WOULD NECESSITATE SIMILAR APPROACH IN OECD AND UN AS WELL. EC DEL ALSO NOTED THAT EC RECOMMENDATIONS WERE DESIGNED TO APPLY IN NON-DISCRIMINATORY FASHION TO ALL MNC'S, WHATEVER THEIR PARENT NATIONALITY. HE THEN OUTLINED BRIEFLY THE SEVEN AREAS TOUCHED ON BY EC GUIDELINES: (A) QUESTIONS OF PUBLIC INTEREST, (B) SOCIAL QUESTIONS AND THE INTERESTS OF WORKERS, (C) COMPETITION, (D) TAKEOVER OF ENTERPRISES BY PUBLIC TENDER, (E) EQUALITY IN RIGHT OF ESTABLISHMENT, (F) PROTECTION OF THE INTERESTS OF LDC'S, AND (G) IMPROVEMENT OF INFORMATION ON ACTIVITIES OF MNC'S. FINALLY, EC REP EMPHASIZED THAT ANY INVESTMENT UNDERSTANDINGS DEVELOPED IN OECD SHOULD RECOGNIZE EXCEPTION FOR POLICIES BEING PURSUED IN COMMUNITY-WIDE CONTEXT.

6. DIVERGENT COUNTRY VIEWS: ALTHOUGH THERE WAS GENERAL

AGREEMENT ON WORK PROGRAM ON CXSS AND ITS EXPERTS AS NOTED ABOVE
NUMBER OF COUNTRIES RAISED PARTICULAR PROBLEMS WITH ONE OR
MORE ASPECTS OF TOTAL EXERCISE. THESE ARE NOTED IN GREATER
DETAIL BELOW SO THAT U.S. PREPARATION FOR FUTURE WORK THIS
AREA CAN DEVELOP APPROPRIATE RESPONSES THESE ISSUES AND WEAVE
MORE IMPORTANT OF THE COUNTRY RESERVATIONS INTO DEVELOPMENT OF
TOTAL INVESTMENT PACKAGE SO THAT ITS CHANCES OF ACCEPTANCE ON
COMPLETION WILL BE IMPROVED. PARAGRAPH REFERENCES ARE ALL TO REF (A).

(A) AUSTRALIA EXPRESSED CONSIDERABLE UNEASINESS ON SPEED AT
WHICH XCSS SEEMED TO BE APPROACHING DRAWING UP OF GUIDELINES
RE NATIONAL TREATMENT, AND FELT MANY COUNTRIES COULD NOT ACCEPT
PRINCIPLES WHICH MIGHT EVOLVE WITHOUT BROADER BACKGROUND
RESEARCH ON VARIOUS COUNTRIES' EXPERIENCE RE NATIONAL TREATMENT.
DELEGATE NOT IN FAVOR OF EARLY ESTABLISHMENT CONSULTING PRO-
CEDURES FOR EITHER NATIONAL TREATMENT OR DISTORTIONS, BUT
PREFERRED STEADY WORK TOWARD ULTIMATE DEVELOPMENT OF GUIDELINES
IN THESE AREAS. SEEMED CAUTIOUS OF DIRECTION OF OECD WORK AND
GENERAL PHILOSOPHY INVOLVED, AND REVIEWED HIS COUNTRY'S PLAN
TO HAVE MORE RATHER THAN LESS SELECTIVE POLICY REGARDING DIRECT
INVESTMENT. INDICATED AUSTRALIA WILL WORK TOWARD MAXIMUM
DOMESTIC OWNERSHIP IN MANY KEY AREAS. IN SOME, SUCH AS URANIUM,
COAL, OIL, GAS, IT WILL BE HUNDRED PERCENT. IN MANUFACTURING
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AND REAL ESTATE THE FEELING IS THAT DIRECT INVESTMENT SHOULD
NOT GO FURTHER. LEGISLATION IS BEING DRAFTED ON NON-BANK
FINANCIAL INVESTMENT. TRESSED THERE ARE CONSIDERATIONS OTHER
THAN ECONOMIC AS REGARDS INTERNATIONAL INVESTMENT AND DID NOT
AGREE THAT FREE CAPITAL MOVEMENTS BOTH WERE NECESSARY
COMPLEMENT TO FREE TRADE. EMPHASIZED NEED FOR PROPER REGARD
FOR HOST COUNTRY TO TAKE DECISIONS IN ITS OWN INTEREST.
REGARDING MNC GUIDELINES, FLT INDUSTRY COMMITTEE WORK SHOULD
MOVE FORWARD, THAT ADDITIONAL STUDY WAS NECESSARY FOR ADOPTION
OF GUIDELINES, BUT ALSO THAT NO NEED FOR URGENCY THIS QUESTION.

(B) SWITZERLAND STRONGLY SUPPORTED U.S. VIEWS ON NEED TO APPLY
LIBERAL PHILOSOPHY ON TRADE ALSO IN AREA OF INTERNATIONAL
INVESTMENT, AND NEED TO USE RESOURCES INTERNATIONALLY AS
RATIONALLY AS POSSIBLE. SUPPORTED PRINCIPLE OF TRANSPARENCY FOR
LEGAL RULES AND ADMINISTRATIVE PRACTICE, AND AGREED THAT SOME
INVESTMENT POLICIES MAY TEND TO OPPOSE OR CONTRADICT LIBERALIZATION
OF TRADE AND TO CREATE UNFAIR COMPETITIVE CONDITIONS. WAS
CONCERNED WITH NEED TO ANALYZE EXCEPTIONS TO GENERAL PRINCIPLES
AND TO KNOW DEVIATIONS FROM GENERAL PRINCIPLES AS PRACTICES BY
VARIOUS COUNTRIES. FELT THAT CONFRONTATION OF NATIONAL POLICIES IN
A CONSULTATION FORUM COULD BE USEFUL EXERCISE, BUT NOTED OECD
ALREADY HAD FRUM FOR SUCH CONSULTATIONS. SUPPORTED USING
INDUSTRY, TRADE, INVISIBLES AND OTHER OECD COMMITTEES IN
INVESTMENT WORK.

(C) ITALY SUGGESTED EXPERTS SHOULD KEEP IN CLOSE TOUCH WITH INVISIBLES COMMITTEE AND ALSO ARRANGE JOINT MEETINGS ON SOME ISSUES TO AVOID OVERLAP. NOTED THAT PART OF PRESENT CAPITAL CODE LREADY DEALS WITH NATIONAL TREATMENT AND SPECIFIC EXCEPTIONS TO IT.

(D) JAPAN SAW NO BASIC DIFFICULTY WITH PRINCIPLE OF NATIONAL TREATMENT, BUT SUGGESTED NEED TO SPECIFY SCOPE OF THE PRINCIPLE CLEARLY, WHETHER IT WAS TO APPLY TO EXISTING ESTABLISHMENTS OR TO ESTABLISHMENT OF NEW ENTERPRISES AND TO FORMULATE EXCEPTIONS CAREFULLY. WITH RESPECT TO DISTORTIONS, REP FAVORED APPROACH IN 6A - I.E. CONSULTATIONS WITHOUT PRIOR GUIDELINES OR BASIC PRINCIPLES. JAPANESE VIEWS RE MNC'S ARE SUMMARIZED IN STATEMENT OF JAPANESE REP POUCHED SEPARATELY.

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(E) AUSTRIA SUPPORTED RAPID WORK TOWARD CNSULTATION PROCEDURE AND HOPED SECRETARIAT COULD HAVE PROGRESS REPORT AT NEXT MEETING ON WORK OF VARIOUS BODIES IN OECD. REP ALSO SUGGESTED THAT PERHAPS EXPERTS FROM OTHER OECD COMMITTEES SHOULD BE INVITED TO MEETING OF XCSS EXPERTS.

(F) CANADA NOTED THERE ARE ALREADY SIGNIFICANT DEPARTURES FROM DOCTRINE OF NEUTRALITY AND SUGGESTED NEED TO EXAMINE EXTENT AND PURPOSE THESE DEPARTURES. FELT DESIRABLE TO GIVE SPECIFIC GUIDELINES TO SECRETARIAT ON HOW TO DO THOROUGH WORK NEEDED TO STUDY DEPARTURES FROM GENERAL PRINCIPLE RATHER THAN TO BEGIN WITH IMMEDIATE DRAFTING OF PRINCIPLES, AND THEREBY POSSIBLY ENDING UP WITH EXCESSIVE EXCEPTIONS. (NOTE: U.S. REP AGREED THAT REVIEW OF EXCEPTIONS WAS NECESSARY AND FELT, ALONG WITH SECRETARIAT, THAT ADEQUATE INFORMATION ALREADY EXISTED IN OECD AS RESULT OF OPERATION OF CAPITAL CODES. THIS WOULD PROVIDE THE BACKGROUND INFORMATION DESIRED BY CANADA AND OTHERS. SECRETARIAT ALSO NOTED CANADA WAS NOT SIGNATORY TO CODE).

(G) FRANCE (BRUNET) AGREED TO NECESSITY FOR STRENGTHENING COOPERATION ON INTERNATIONAL INVESTMENTS, AND COMMENDED US AGREEMENT TO FURTHER WORK ON MNC QUESTION. HOWEVER, NOTED THAT LIBERALIZATION OF CAPITAL MOVEMENTS WAS NOT AN END I ITSELF AND FELT THAT GOAL OF XCSS EXERCISE WAS NOT ADDITIONAL LIBERALIZATION OF CAPITAL FLOWS, BUT TO STRENGTHEN COOPERATIVE EFFORTS ON PROBLEMS CAUSED BY INTERNATIONAL INVESTMENT AND TO REVIEW EFFECTS OF LIVERIALIZATION TAKEN THUS FAR AND ALL WORK DONE SO FAR IN OECD. LOOKED FORWARD TO FORTHCOMIN SEC GEN NOTE ON LONG-TERM CAPITAL MOVEMENTS AS HELPFUL TO ASSESS POSSIBLE BENEFIT OF LIBERALIZATION OF CONTROLS. FELT THERE ALREADY EXISTS SATISFACTORY PROCEDURE FOR CONSULTATION ON INTERNATIONAL INVESTMENT ISSUES IN INVISIBLES COMMITTEE. WHILE NOT OPPOSED TO FURTHER PROGRESS THIS AREA, FELT IT NCESSARY TO HAVE CONSIDERALBLY MORE INFOR

MATION ON OPERATIONS MNC'S AND NATIONAL DEVIATIONS
TO PRINCIPLES OF NEUTRALITY AND NATIONAL TREATMENT. XCSS
SHOULD STUDY EFFECTS OF MNC'S ON CAPITAL MOVEMENTS, INFLATION
AND EMPLOYMENT.

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(H) NEW ZEALAND (LOUGH) NOTED THAT WHILE RIGHT OF ESTABLISHMENT WAS NOT AUTOMATIC IN NEW ZEALAND, ONCE COMPANIES WERE ALLOWED IN THEY WERE GIVEN LARGELY SAME TREATMENT AS LOCAL FIRMS. HE WISHED TO

SEE DEVELOPMENT OF EXCEPTIONS OF TYPE USED BY NEW ZEALAND INCLUDING (A) CONTROL OVER ABILITY OF FOREIGN INVESTORS TO TAKE OVER EXISTING FIRMS, WITH NATIONAL TREATMENT APPLYING TO EXISTING FIRMS BUT NOT TO RIGHT OF ENTRY AND (B) ONCE ESTABLISHED, FIRMS SUBJECTED TO CONTROL ON RIGHT TO BORROW IN DOMESTIC CAPITAL MARKET AND RIGHT TO EXPAND ACTIVITIES BEYOND THOSE INITIALLY AUTHORIZED.

(I) NOWAY SUPPORTED PART I ON INVESTMENT AIDS, BUT WISHED FURTHER REFINEMENT ON PARAS 9 TO 15 AND SPECIFICALLY NOTED THAT PARA 12 WAS UNREALISTIC INASMUCH AS AIDS TO INVESTMENT ARE IN FACT DESIGNED TO SHIFT PATTERN OF INVESTMENT AND TRADE FROM WHAT IT WOULD OTHERWISE BE, A PART OF GENERAL DOMESTIC ECONOMIC POLICY. SUGGESTED CONCENTRATE ON INTENSITY OF AIDS RATHER THAN FORM OR OBJECTIVE. SUPPORTED DEVELOPMENT OF MNC GUIDELINES AND PARALLEL CODE OF CONDUCT FOR COMPANIES AND GOVERNMENTS, BUT FELT CONSIDERABLY MORE BACKGROUND RESEARCH NECESSARY.

(J) SPAIN SUPPORTED RESTRICTIVE BUSINESS PRACTICES COMMITTEE WORK ON CODE OF CONDUCT AND SUGGESTED NEED WAS NOT FOR MORE GENERAL INFORMATION ON DIRECT INVESTMENT BUT SPECIFICALLY ON MNC ACTIVITIES IN AREA OF INTRA-COMPANY PRICING AND SHORT-TERM CAPITAL FLOWS.

(K) SWEDEN SUGGESTED QUESTION OF INVESTMENT AIDS SHOULD BE DEALT WITH IN BROAD WAY SINCE MEASURES OTHER THAN DIRECT AIDS ALSO AFFECT INVESTMENT AND OTHER COUNTRY INTERESTS. COULD AGREE TO WAIT FOR REPORT FROM TRADE COMMITTEE BUT STRESSED LATTER COMMITTEE SHOULD LEAVE DEVELOPMENT OF GUIDELINES TO XCSS. PREFERRED TO LIMIT NATIONAL TREATMENT TO ALREADY ESTABLISHED FIRMS, AND SUGGESTED MNC GUIDELINES SHOULD BE FOR COMPANIES BUT NOT FOR GOVERNMENTS. STRESSED NEED FOR INTER-GOVERNMENT COOPERATION

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NOT ONLY TO AID POSITIVE EFFECTS OF TRANSNATIONAL INVESTMENT BUT ALSO TO STEM ANY NEGATIVE EFFECTS. FELT OECD QUESTIONNAIRE ON MNC'S PROBABLY NOT ADEQUATE. STRESSED NEED TO DEVELOP GUIDELINES WHICH WOULD (A) PREVENT COMPANIES FROM ESCAPING NATIONAL LEGISLATION AND (B) REDUCE THEIR ABILITY TO PLAY OFF UNIONS IN DIFFERENT COUNTRIES AGAINST ONE ANOTHER, NOTING THAT UNIONS ALREADY HAD

SUBSTANTIAL INFORMATION AND CONTROL SYSTEMS CONCERNING
ACTIVITIES OF PECIFIC MNC'S.

(1) U.K. (BROWN) WHILE APPROVING SECRETARIAT PAPER ON OBJECTIVES
AND LIMITATIONS OF INVESTMENT EXERCISE, DISAGREED WITH
U.S. POSITION THAT FURTHER LIBERALIZATION WAS AN OBJECTIVE OF THE
EXERCISE. SUGGESTED MAJOR GOAL WAS GREATER COOPERATION AND UNDER-
STANDING LEADIN TO CONSULTATION PROCESS ON INVESTMENT PROBLEMS.
HOWEVER, ALSO BELIEVE CONSULTATIONS ALONE WITHOUT SOME AGREED-TO
PRINCIPLES MIGHT NOT BE MEANINGFUL, AND THAT EXPERTS
NEEDED TO GO SOMEWHAT FURTHER IN DEVELOPING PRINCIPLES
BEFORE CONSULTATION PROCEDURECOULD BE IMPLEMENTED.
WHILE AGREEING TO CONSNSUS IN FAVOR OF TRANSPARENCY,
SUGGESTED IT WAS DIFFICULT TO FIND STARTING POSITION
WHEN LOOKING AT QUESTION OF DISTORTION. REP FELT NEED
FOR GREATER BALANCE OF CONCEPTS IN PARAS 13 AND 14,
NOTING DIFFICULTY OF DISTINGUISHING BETWEEN FORMS OF
INVESTMENT AIDS. FELT THAT IMPRTANT QUESTION WAS
EXTENT OF AID AND WHETHER IT WAS APPROPRIATE TO A GIVERNMENT'S
LEGITIMATE DOMESTIC POLICY AIMS.

(M) DENMARK REP QUESTIONED USEFULNESS OF PROCEEDING WITH
CONSULTATION PROCEDURES WITHOUT PRIOR DEVELOPMENT OF
ADEQUATE GUIDELINES, BUT COULD ACCEPT CONSULTATION
PROCEDURE IF IT WER USED MAINLY TO DEVELOP INFORMATION
NECESSARY FOR SUBSEQUENT DRAFTING OF PRINCIPLES AND
GUIDELINES. FEARED THAT PRINCIPLE OF NATIONAL TREAT-
MENT WOULD MEAN THAT MNC'S COULD THEREBY MORE EASILY
BENEFIT FROM DIFFERENCES IN NATIONAL LEGISLATION.

(N) NETHERLANDS SUGGESTED NED TO HAVE GREATER LINK BETWEEN
EXISTING CAPITAL MOVEMENT CODE AND PRESENT EXERCISE ON
QUESTION OF NATIONAL TREATMENT, BUT WAS NOT CERTAIN
FURTHER WORK SHOULD BE HANDLED IN INVISIBLES COMMITTEE
AS HAD BEEN SUGGESTED BY BRUNET, SINCE NOT ALL COUNTRIES
ON THAT COMMITTEE. FELT USE OF FIRST APPROAC IN PARA 6
WOULD RESULT IN EMERGENCE OF NUMBER OF INTERESTING CASE
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STUDIES WHICH COULD HELP IN FURTHER DEVELOPMENT OF GUIDE-
LINES. AT SAME TIME, WORK SHOULD MOVE FORWARD ON
PARA 6C ALTERNATIVE IN TRADE COMMITTEE, WITH XCSS
REQUESTING THAT COMMITTEE PROVIDE INTERIM REPORT.
RGARDING MNC'S, HE NOTED NECESSITY TO DEVELOP WAYS TO
PREVENT CONFLICT BETWEEN GOVERNMENTS AND MNC'S AND ALSO
NEED TO GIVE GREATER EMPHASIS TO SOCIAL ASPECTS OF
QUESTION. SUGGESTED SUPERVISION OF COMMITTEE WORK IN
OECD ON MNC QUESTIONS COULD BE DONE BETTER BY COUNCIL
THAN BY XCSS, SINC LATTER FREQUENTLY UNAWARE OF MUCH
OF WORK DONE BY INDIFIDUAL COMMITTEES.

(O) GERMANY AGREED THAT DISTORTION RESULTING FROM INVESTMENT
AIDS WAS KEY ISSUE BUT THAT IT WAS DIFFICULT TO DEFINE
NEUTRALITY AS WELL AS CONSEQUENCES OF DEVIATIONS
FROM NEUTRALITY. WHILE SUPPORTING PROPOSA TO ESTABLISH

IMMEDIATE CONSULTATION PROCEDURE, FELT SUCH PROCEDURE SHOULD BE LEFT IMPRECISE AND PRAGMATIC FOR TIME BEING. STRESSED IMPORTANCE OF PREVENTING CONSULTATION MACHINERY FROM BECOMING CONFRONTATION MECHANISM. WHILE ACCEPTING WORK PLAN PARA 21-27, FELT SECRETARIAT PROPOSED QUESTIONNAIRE WOULD NOT BE OF GREAT HELP. STATED STILL TO BE DEMONSTRATED MNC'S PLAY SPECIAL ROLE IN SHORT-TERM CAPITAL MOVEMENTS. SECRETARIAT AND BIAF MIGHT PROVIDE FURTHER INFORMATION ON EXTENT TO WHICH MNC'S ACT IN THIS AREA.

(P) BELGIUM, WHILE AGREEING TO USEFULNESS OF PRAGMATIC CONSULTATION MACHINERY, WAS NOT SURE THAT PRINCIPLE OF INVESTMENT AIDS WAS BASIC POINT AND AGREED WITH FRENCH POSITION CONCERNING DIFFICULTY OF KNOWING EXTENT OF AND DEFINING SUCH AIDS.

(Q) IRELAND DELEGATE FELT INVESTMENT EXERCISE HAD NOT ADVANCED TO POINT WHERE CONSULTATION PROCEDURES COULD BE ESTABLISHED AND STRESSED NEED TO DESIGN OBJECTIVES. FELT THAT FREEDOM OF CAPITAL FLOWS FOR THEIR OWN SAKE WAS NOT GOAL OF EXERCISE. FELT USE OF WORD "DISTORTIONS" A POOR CHOICE, SINCE EFFECT OF ALL GOVERNMENT ACTIONS ON DOMESTIC ECONOMY COULD BE SAID TO CHANGE WHAT WOULD OTHERWISE OCCUR. USE OF WORD DISTORTION SUGGESTS GOVERNMENTS PURPOSELY MISSHAPE INVESTMENT AND OTHER ECONOMIC DECISIONS FOR IMPROPER REASONS.

7. CONSULTATION MACHINERY: IN RESPONSE TO QUESTION FROM LIMITED OFFICIAL USE
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SWEDISH DEL., SEC GEN SAID THAT HE CONTEMPLATED DEVELOPING NEW CONSULTATION MACHINERY FOR HANDLING INVESTMENT QUESTIONS SINCE NOT COVERED BY EXISTING OED MACHINERY.
CASEY

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